Subsea 7 S.A. Announces Third Quarter 2018 Results

Luxembourg – 8 November 2018 – Subsea 7 S.A. (the Group) (Oslo Børs: SUBC, ADR: SUBCY, ISIN: LU0075646355) announced today results for the third quarter which ended 30 September 2018.

Third Quarter highlights

- Adjusted EBITDA of $217 million and margin of 20% reflected higher vessel utilisation related to project activity and increased demand for life of field services worldwide
- New awards and escalations totalled $0.8 billion with four awards announced in the quarter; order backlog was $5.1 billion at the quarter end
- Net cash generated from operating activities of $190 million included $8 million decrease in net operating liabilities as the Group’s working capital position stabilised
- Tendering and awards activity showed continued recovery for the oil and gas market and market growth for renewables
- New guidance for 2019 forecasts Revenue and Adjusted EBITDA lower then 2018, with gradual recovery expected from 2020

	Three Months Ended		Nine Months Ended	
For the period (in $ millions, except Adjusted EBITDA margin and per share data)	**30 Sep 2018 Unaudited**	30 Sept 2017 Unaudited	**30 Sep 2018 Unaudited**	30 Sep 2017 Unaudited
Revenue	**1,082**	1,063	**3,051**	2,983
Adjusted EBITDA[(a)]	**217**	250	**506**	858
Adjusted EBITDA margin[(a)]	**20%**	24%	**17%**	29%
Net operating income	**111**	149	**177**	553
Net income	**76**	111	**133**	403
Earnings per share – in $ per share				
Basic	**0.23**	0.35	**0.44**	1.22
Diluted[(b)]	**0.23**	0.34	**0.44**	1.18

As at (in $ millions)	**30 Sep 2018 Unaudited**	30 Jun 2018 Unaudited
Backlog[(c)]	**5,075**	5,433
Cash and cash equivalents	**732**	614
Borrowings	**264**	271

(a) For explanations and reconciliations of Adjusted EBITDA and Adjusted EBITDA margin refer to Note 8 ‘Adjusted EBITDA and Adjusted EBITDA margin’ to the Condensed Consolidated Financial Statements.

(b) For the explanation and a reconciliation of diluted earnings per share refer to Note 7 ‘Earnings per share’ to the Condensed Consolidated Financial Statements.

(c) Backlog at 30 September 2018 and 30 June 2018 is a non-IFRS measure.

Jean Cahuzac, Chief Executive Officer, said:

‘Our client-focused mindset and collaborative approach to creating the right solutions have helped to deliver our good operational and financial results this quarter. Our total vessel utilisation was the highest it has been since 2014 with several large projects executing offshore installation campaigns using our key enabling vessels supplemented by vessels from the wider fleet.

Third quarter Revenue and Adjusted EBITDA benefitted from the higher levels of activity in SURF and Conventional projects and Inspection, Repair and Maintenance (IRM) services, which made good progress in the favourable offshore conditions of the summer months in the northern hemisphere. Renewables and Heavy Lifting activity diminished as the Beatrice project was substantially completed; the next wave of large EPCI wind farm projects are not expected to be awarded until 2019.

Subsea 7 is well positioned for the recovery with its differentiated capability, long-standing relationships and market-leading technology. We will continue to focus on cost discipline and efficiency while preparing for the future increase in activity related to the larger greenfield projects that are now being tendered and awarded.’

Third quarter 2018 operational performance

SURF and Conventional projects progressed well in the third quarter. Offshore Egypt, the West Nile Delta Phase Two project achieved key milestones including the installation of two large diameter export pipelines. Offshore Australia, the Sole project commenced offshore installation and the Greater Western Flank project neared completion. The Conventional PUPP project, offshore Nigeria, began offshore operations less than six months after project award. In the Middle East, the 4 Decks project was substantially completed and the Hasbah project progressed with pipelay activities.

Renewables and Heavy Lifting activity diminished in the quarter. The Beatrice wind farm project, offshore UK, was substantially completed with the final six jackets and 33 inter-array cables installed. Offshore Germany, the Borkum II project progressed more slowly than expected due to adverse weather conditions, as a result, additional costs have been incurred. Subsea 7’s vessel, *Seven Borealis*, was mobilised in October to assist with transition piece installation to accelerate execution in the fourth quarter.

i-Tech Services experienced an increase in IRM activity with more interest from clients in all regions. Additional demand is being met with short-term vessel charters matched to meet clients’ needs. Demand for ROV services for floating drill rigs remained subdued.

Active Vessel Utilisation was 89%, up 11 percentage points from the prior year period and 9 percentage points higher than in the second quarter. Utilisation was high in all three operational Business Units, reflecting key offshore phases on the West Nile Delta Phase Two, Hasbah and Borkum II projects in addition to increased IRM activity. Offshore activity is expected to be significantly lower in the fourth quarter reflecting the more difficult weather conditions in the North Sea during the winter months. The reel-lay vessel *Seven Navica* was reactivated in July for activities in the North Sea and Canada, leaving one vessel, *Seven Mar*, stacked at the quarter end resulting in Total Vessel Utilisation of 85%.

Financial highlights for the third quarter 2018

Third quarter revenue of $1.1 billion was broadly in line with the prior year period and Adjusted EBITDA was $217 million. Adjusted EBITDA margin of 20% was 4 percentage points lower than the prior year period mainly due to lower pricing on projects signed in the downturn and lower contribution from the Renewables and Heavy Lifting Business Unit. Diluted earnings per share was $0.23, a decrease of 32% on the prior year period.

Subsea 7's new awards and escalations totalled $777 million in the third quarter taking the nine month cumulative total to $3.0 billion. New awards included the Buzzard Phase 2 project for Nexen and the Triton Knoll wind farm project, both offshore UK, the Katmai integrated project for Fieldwood in the US Gulf of Mexico and a Conventional project that for commercial reasons remains unnamed. Order backlog at the end of September was $5.1 billion, of which $2.2 billion is due to be recognised as revenue in 2019. Book-to-bill ratio was 0.7 for the third quarter and 1.0 for the first nine months, driven mainly by an increase in SURF awards.

Subsea 7's financial and liquidity position remains strong underpinned by net cash of $468 million and the Group's unutilised $656 million Revolving Credit Facility. Cash and cash equivalents was $732 million at 30 September 2018, an increase of $118 million in the quarter. Cash capital expenditure of $74 million included approximately $50 million towards *Seven Vega*, the new-build reel lay vessel which is on target to be delivered in early 2020.

Outlook

Positive momentum in tendering activity has continued in all three of Subsea 7's operational Business Units but pricing on new awards remains under pressure, particularly for short-cycle projects. The majority of new awards in 2018 have been for projects that deliver incremental production for existing developments. Looking ahead to 2019, several large greenfield project awards to market are anticipated, which will improve utilisation of key enabling vessels and drive margin improvement in the medium-term.

Guidance is unchanged for the full year 2018 Revenue and Adjusted EBITDA percentage margin.

Subsea 7's 2019 guidance, set out below, includes the anticipated impact of the implementation of IFRS 16 'Leases', which will be effective from 1 January 2019. The 2018 comparatives are not affected by the new standard and will not be restated. It is estimated that the impact of implementing IFRS 16 on the Group's 2019 income statement will be to increase net operating income by between $10 million to $15 million, with the decrease in operating lease expense mostly offset by the lease amortisation charge. Finance costs are expected to increase by between $20 million to $25 million. IFRS 16 is expected to have a positive impact on 2019 Adjusted EBITDA of between $100 million and $110 million, but net income is expected to be adversely impacted by approximately $10 million due to the timing of finance cost recognition.

Revenue in 2019 is expected to be slightly lower than Subsea 7's guidance for 2018 due to a reduction in our renewables and heavy lifting activity. Adjusted EBITDA in 2019, inclusive of the positive impact from the adoption of IFRS 16, is expected to be lower than 2018. The Group expects to achieve a double-digit Adjusted EBITDA percentage margin and positive net operating income for the year.

Given the positive momentum in tendering activity, 2019 is forecast to be the low point in cyclical profitability for Subsea 7, with a recovery expected in utilisation and financial performance from 2020.

Conference Call Information

Lines will open 15 minutes prior to conference call.

Date: 8 November 2018

Time: 12:00 UK Time

Conference ID: 82909616#

	Conference Dial In Numbers
United Kingdom	0333 300 0804
United States	631 913 1422
Norway	23 50 02 43
International Dial In	+44 333 300 0804

Replay Facility Details

A replay facility (with conference ID 301216915#) will be available from:

Date: 8 November 2018
Time: 17:00 UK Time

	Conference Replay Dial In Numbers
International Dial In	+44 333 300 0819

For further information, please contact:

Isabel Green

Investor Relations Director

email: isabel.green@subsea7.com

Telephone: +44 20 8210 5568

Special Note Regarding Forward-Looking Statements

Certain statements made in this announcement may include ‘forward-looking statements’. These statements may be identified by the use of words like ‘anticipate’, ‘believe’, ‘could’, ‘estimate’, ‘expect’, ‘forecast’, ‘intend’, ‘may’, ‘might’, ‘plan’, ‘predict’, ‘project’, ‘scheduled’, ‘seek’, ‘should’, ‘will’, and similar expressions. The forward-looking statements reflect our current views and are subject to risks, uncertainties and assumptions. The principal risks and uncertainties which could impact the Group and the factors which could affect the actual results are described but not limited to those in the ‘Risk Management’ section in the Group’s Annual Report and Consolidated Financial Statements 2017. These factors, and others which are discussed in our public announcements, are among those that may cause actual and future results and trends to differ materially from our forward-looking statements: actions by regulatory authorities or other third parties; our ability to recover costs on significant projects; general economic conditions and competition in the markets and businesses in which we operate; our relationship with significant clients; the outcome of legal and administrative proceedings or governmental enquiries; uncertainties inherent in operating internationally; the timely delivery of vessels on order; the impact of laws and regulations; and operating hazards, including spills and environmental damage. Many of these factors are beyond our ability to control or predict. Other unknown or unpredictable factors could also have material adverse effects on our future results. Given these factors, you should not place undue reliance on the forward-looking statements.

Third Quarter 2018

Revenue
Revenue for the quarter was $1.1 billion, an increase of $19 million or 2% compared to Q3 2017. The year-on-year increase was due to higher activity levels in the SURF and Conventional Business Unit primarily due to increased activity in Egypt and Australia. This was partially offset by lower activity levels in the Renewables and Heavy Lifting and i-Tech Services Business Units.

Adjusted EBITDA
Adjusted EBITDA and Adjusted EBITDA margin for the quarter were $217 million and 20% respectively, compared to $250 million and 24% in Q3 2017. The reduced Adjusted EBITDA margin in Q3 2018 reflects lower pricing on projects awarded during the downturn within the SURF and Conventional Business Unit and fewer projects in the final stages of completion.

Net operating income
Net operating income for the quarter was $111 million, compared to net operating income of $149 million in Q3 2017. The decrease in net operating income across all Business Units reflects lower pricing on projects awarded during the downturn within the SURF and Conventional Business Unit, and lower activity levels in the Renewables and Heavy Lifting and i-Tech Services Business Units. Administrative expenses were $64 million for the quarter, which was in line with the prior year period.

Net income
Net income was $76 million in the quarter, compared to net income of $111 million in Q3 2017. The reduction in net income was primarily due to:

- the decrease in net operating income;
- a taxation charge of $34 million in the quarter, compared to $12 million in Q3 2017. The effective rate of tax for Q3 2018 was 31% compared to 9% for Q3 2017. The effective tax rate in Q3 2017 was favourably impacted by a reduction in the full year forecast effective tax rate

partially offset by:

- a net foreign currency loss below $1 million in Q3 2018, recognised within other gains and losses, compared to a net foreign currency loss of $28 million in Q3 2017.

Earnings per share
Diluted earnings per share was $0.23 in Q3 2018 compared to diluted earnings per share of $0.34 in Q3 2017, calculated using a weighted average number of shares of 328 million and 341 million respectively.

Cash and cash equivalents
Cash and cash equivalents was $732 million at 30 September 2018, an increase of $118 million in the quarter. The movement in cash and cash equivalents during the quarter was mainly attributable to:

- net cash generated from operating activities of $190 million

partially offset by:

- purchases of property, plant and equipment of $74 million.

Borrowings
Borrowings decreased to $264 million at 30 September 2018 from $271 million at 30 June 2018 due to scheduled repayments.

Nine months ended 30 September 2018

Revenue
Revenue for the nine months ended 30 September 2018 was $3.1 billion, an increase of $68 million or 2% compared to 2017. The year-on-year increase was due to higher activity levels in the SURF and Conventional Business Unit, primarily due to increased activity in the Middle East. This was partially offset by lower activity levels in the Renewables and Heavy Lifting and i-Tech Services Business Units.

Adjusted EBITDA
Adjusted EBITDA and Adjusted EBITDA margin for the nine months ended 30 September 2018 were $506 million and 17% respectively, compared to $858 million and 29% in 2017. The reduced Adjusted EBITDA margin in 2018 reflected lower pricing on projects awarded during the downturn and fewer projects in the final stages of completion, within the SURF and Conventional Business Unit, and lower activity levels in the Renewables and Heavy Lifting and i-Tech Services Business Units.

Net operating income
Net operating income for the nine months ended 30 September 2018 was $177 million, compared to net operating income of $553 million in 2017. The decrease in net operating income across all Business Units reflected lower pricing on projects awarded during the downturn within the SURF and Conventional Business Unit, and lower activity levels in Renewables and i-Tech Services. Administrative expenses increased by $34 million compared with the prior year period, the increase was mainly driven by the consolidation of the businesses the Group acquired during 2017 and increased tendering activity.

Net income
Net income for the nine months ended 30 September 2018 was $133 million, compared to net income of $403 million in 2017. The decrease in net income was primarily due to:

- the decrease in net operating income;
- the recognition of a $42 million remeasurement gain on business combination in 2017 related to the acquisition of Seaway Heavy Lifting

partially offset by:

- a reduction of $83 million in the taxation charge, driven by reduced profitability. The effective tax rate in 2018 was 27% compared to 25% in 2017; and
- a net foreign currency gain of $3 million in 2018, recognised within other gains and losses, compared to a net foreign currency loss of $59 million in 2017.

Earnings per share
Diluted earnings per share was $0.44 for the nine months ended 30 September 2018 compared to diluted earnings per share of $1.18 in 2017, calculated using a weighted average number of shares of 328 million and 342 million respectively.

Cash and cash equivalents
Cash and cash equivalents was $732 million at 30 September 2018 compared to $1.1 billion at 31 December 2017. The decrease of $377 million during the nine months to 30 September 2018 was mainly attributable to:

- purchases of property, plant and equipment totalling $198 million;
- $161 million net cash disbursed with respect to business combinations, mainly related to the acquisition of certain businesses and vessels acquired from Siem Offshore Inc.;
- payments of $19 million to acquire a 60% interest in Xodus Group, an equity-accounted joint venture;
- $204 million dividends paid to equity shareholders of the parent company

partially offset by:

- net cash generated from operating activities of $238 million.

Borrowings
Borrowings decreased to $264 million at 30 September 2018 from $283 million at 31 December 2017 due to scheduled repayments.

Business Unit Highlights

Third Quarter 2018

SURF and Conventional
Revenue for the quarter was $865 million, an increase of $111 million or 15% compared to Q3 2017.

During the quarter the 4 Decks project, offshore Saudi Arabia, the Lomond pipelay project, offshore UK, and the Greater Western Flank project, offshore Australia, neared completion. Work progressed during the quarter on the West Nile Delta Phase Two project, offshore Egypt, the Hasbah project, offshore Saudi Arabia, the PUPP project, offshore Nigeria, and the Sole project, offshore Australia. In Brazil, there were high levels of PLSV utilisation under long-term contracts with Petrobras.

Net operating income was $93 million in the quarter, a decrease of $10 million or 10% compared to Q3 2017. The decrease in net operating income reflected fewer projects in the final stages of completion and underlying margin pressure driven by challenging market conditions.

i-Tech Services
Revenue for Q3 2018 was $66 million, a decrease of $11 million or 14% compared to Q3 2017. ROV support activity decreased due to a reduction in the number of active drill rigs worldwide. Inspection, Repair and Maintenance (IRM) activity increased due to activity in Azerbaijan, following the award of a long-term contract.

Net operating income was $4 million in Q3 2018 compared to net operating income of $6 million in Q3 2017. The reduction in net operating income reflected lower activity levels and underlying pricing pressure.

Renewables and Heavy Lifting
Revenue was $152 million in Q3 2018 compared to $232 million in Q3 2017. The reduction in revenue was primarily due to reduced activity on the Beatrice wind farm project, offshore UK, which neared completion. Net operating income was $17 million in Q3 2018 compared to $45 million in Q3 2017, reflecting lower activity levels compared with the prior year period, and delayed progress on the Borkum II project, offshore Germany, which was adversely impacted by unfavourable weather conditions.

Nine months ended 30 September 2018

SURF and Conventional
Revenue for the nine months ended 30 September 2018 was $2.3 billion, an increase of $321 million or 16% compared to the prior year period.

During the period the 4 Decks project, offshore Saudi Arabia and the Aasta Hansteen project, offshore Norway, were substantially completed. Work progressed on the West Nile Delta Phase Two project, offshore Egypt, the Hasbah project, offshore Saudi Arabia, the Snorre project, offshore Norway and the Greater Western Flank project, offshore Australia. In Brazil, there were high levels of PLSV utilisation under long-term contracts with Petrobras.

Net operating income was $167 million, a decrease of $249 million or 60% compared to 2017. The decrease in net operating income reflected fewer projects in the final stages of completion and underlying margin pressure driven by challenging market conditions.

i-Tech Services
Revenue for the period was $178 million, a decrease of $57 million or 24% compared to 2017. ROV support activity decreased due to a reduction in the number of active drill rigs worldwide. Levels of Inspection, Repair and Maintenance (IRM) activity worldwide were consistent with 2017.

Net operating income was $5 million compared to $28 million in 2017. The reduction in net operating income reflected lower activity level and competitive pricing pressure. Net operating income in 2017 benefitted from the completion of the Emergency Pipeline Repair System project, offshore Australia.

Renewables and Heavy Lifting

Revenue was $582 million compared to $777 million in 2017. The reduction in revenue was primarily due to reduced activity on the Beatrice wind farm project, offshore UK, which neared completion. Net operating income was $17 million compared to $93 million in 2017, reflecting lower activity levels, the phasing of profit recognition on the Beatrice wind farm project, and the delayed progress on the Borkum II project, offshore Germany, which was adversely impacted by unfavourable weather conditions.

Asset Development and Activities

Vessel Utilisation

Total Vessel Utilisation for the quarter was 85% compared with 69% in Q3 2017. Active Vessel Utilisation, which excludes stacked vessel days, was 89% compared to 78% in Q3 2017.

At 30 September 2018 there were 34 vessels in the total fleet, comprising 31 active vessels, two stacked vessels and one vessel under construction.

Asset Development

During the quarter construction continued on the Group's new reel-lay vessel, which will be named *Seven Vega*.

Backlog

At 30 September 2018 backlog was $5.1 billion, a decrease of $0.3 billion compared with 30 June 2018. Order intake, including escalations, totalling $0.8 billion was recorded in the quarter. Unfavourable foreign exchange movements of approximately $50 million were recognised during the quarter. New awards included the Katmai project, in the Gulf of Mexico, the Buzzard Phase 2 and Triton Knoll wind farm projects, offshore UK, and a Conventional project which for commercial reasons remains unnamed.

$4.3 billion of the backlog at 30 September 2018 related to the SURF and Conventional Business Unit (which included $0.9 billion related to long-term day-rate contracts for PLSV's in Brazil), $0.5 billion related to the i-Tech Services Business Unit and $0.3 billion related to the Renewables and Heavy Lifting Business Unit. $1.0 billion of this backlog is expected to be executed in 2018, $2.2 billion in 2019 and $1.9 billion in 2020 and thereafter. Backlog related to associates and joint ventures is excluded from these figures.

Subsea 7 S.A.
Condensed Consolidated Income Statement

(in $ millions)	Three Months Ended 30 Sep 2018 Unaudited	Three Months Ended 30 Sep 2017 Unaudited	Nine Months Ended 30 Sep 2018 Unaudited	Nine Months Ended 30 Sep 2017 Unaudited
Revenue	**1,082.4**	1,063.3	**3,051.1**	2,983.0
Operating expenses	**(908.0)**	(836.8)	**(2,666.4)**	(2,229.4)
Gross profit	**174.4**	226.5	**384.7**	753.6
Administrative expenses	**(63.9)**	(64.2)	**(203.9)**	(169.7)
Share of net income of associates and joint ventures	**0.2**	(13.1)	**(3.9)**	(31.4)
Net operating income	**110.7**	149.2	**176.9**	552.5
Finance income	**3.8**	6.0	**12.5**	16.9
Remeasurement gain on business combination	**–**	–	**–**	42.2
Other gains and losses	**(1.7)**	(26.3)	**2.8**	(61.2)
Finance costs	**(2.8)**	(6.2)	**(10.7)**	(15.2)
Income before taxes	**110.0**	122.7	**181.5**	535.2
Taxation	**(33.7)**	(11.6)	**(49.0)**	(132.0)
Net income	**76.3**	111.1	**132.5**	403.2
Net income attributable to:				
Shareholders of the parent company	**76.5**	113.3	**144.5**	398.1
Non-controlling interests	**(0.2)**	(2.2)	**(12.0)**	5.1
	76.3	111.1	**132.5**	403.2

Earnings per share	**$ per share**	$ per share	**$ per share**	$ per share
Basic	**0.23**	0.35	**0.44**	1.22
Diluted[(a)]	**0.23**	0.34	**0.44**	1.18

(a) For the explanation and a reconciliation of diluted earnings per share refer to Note 7 'Earnings per share' to the Condensed Consolidated Financial Statements.

Subsea 7 S.A.
Condensed Consolidated Statement of Comprehensive Income

(in $ millions)	Three Months Ended 30 Sep 2018 Unaudited	Three Months Ended 30 Sep 2017 Unaudited	Nine Months Ended 30 Sep 2018 Unaudited	Nine Months Ended 30 Sep 2017 Unaudited
Net income	**76.3**	111.1	**132.5**	403.2
Other comprehensive (loss)/income				
Items that may be reclassified to the income statement in subsequent periods:				
Foreign currency translation	**(16.2)**	82.1	**(41.4)**	142.9
Share of other comprehensive income of associates and joint ventures	**–**	–	**–**	0.5
Reclassification adjustments relating to business combination	**–**	–	**–**	9.0
Tax relating to components of other comprehensive income which may be reclassified	**–**	(2.1)	**(0.7)**	(1.7)
Other comprehensive (loss)/income	**(16.2)**	80.0	**(42.1)**	150.7
Total comprehensive income	**60.1**	191.1	**90.4**	553.9
Total comprehensive income attributable to:				
Shareholders of the parent company	**60.1**	192.5	**102.5**	549.3
Non-controlling interests	**–**	(1.4)	**(12.1)**	4.6
	60.1	191.1	**90.4**	553.9

Subsea 7 S.A.
Condensed Consolidated Balance Sheet

As at (in $ millions)	30 Sep 2018 Unaudited	31 Dec 2017 Audited
Assets		
Non-current assets		
Goodwill	**767.0**	700.8
Intangible assets	**61.1**	81.0
Property, plant and equipment	**4,662.4**	4,688.1
Interest in associates and joint ventures	**44.5**	28.7
Advances and receivables	**34.7**	35.2
Derivative financial instruments	**2.0**	5.8
Financial investments	**7.3**	5.5
Deferred tax assets	**20.9**	17.2
	5,599.9	5,562.3
Current assets		
Inventories	**37.6**	36.7
Trade and other receivables	**632.3**	497.3
Derivative financial instruments	**12.9**	36.9
Assets classified as held for sale	**0.4**	0.7
Construction contracts – assets	**567.8**	319.1
Other accrued income and prepaid expenses	**225.6**	176.3
Restricted cash	**5.3**	6.3
Cash and cash equivalents	**732.0**	1,109.1
	2,213.9	2,182.4
Total assets	**7,813.8**	7,744.7
Equity		
Issued share capital	**654.7**	654.7
Treasury shares	**(27.2)**	(19.7)
Paid in surplus	**2,833.0**	3,033.7
Translation reserve	**(565.6)**	(523.6)
Other reserves	**(29.3)**	(29.3)
Retained earnings	**2,924.2**	2,776.8
Equity attributable to shareholders of the parent company	**5,789.8**	5,892.6
Non-controlling interests	**36.3**	48.4
Total equity	**5,826.1**	5,941.0
Liabilities		
Non-current liabilities		
Non-current portion of borrowings	**239.8**	258.2
Retirement benefit obligations	**33.0**	30.9
Deferred tax liabilities	**77.5**	78.4
Provisions	**106.0**	67.6
Contingent liability recognised	**6.8**	7.8
Derivative financial instruments	**0.6**	0.5
Other non-current liabilities	**35.8**	49.9
	499.5	493.3
Current liabilities		
Trade and other liabilities	**1,064.9**	892.9
Derivative financial instruments	**10.5**	24.3
Current tax liabilities	**112.4**	87.7
Current portion of borrowings	**24.6**	24.5
Provisions	**125.3**	76.8
Construction contracts – liabilities	**143.4**	200.0
Deferred revenue	**7.1**	4.2
	1,488.2	1,310.4
Total liabilities	**1,987.7**	1,803.7
Total equity and liabilities	**7,813.8**	7,744.7

Subsea 7 S.A.
Condensed Consolidated Statement of Changes in Equity
For the nine months ended 30 September 2018

Unaudited (in $ millions)	Issued share capital	Treasury shares	Paid in surplus	Translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2017	**654.7**	**(19.7)**	**3,033.7**	**(523.6)**	**(29.3)**	**2,776.8**	**5,892.6**	**48.4**	**5,941.0**
Adjustment on implementation of IFRS 15	–	–	–	–	–	3.9	3.9	–	3.9
Balance at 1 January 2018	**654.7**	**(19.7)**	**3,033.7**	**(523.6)**	**(29.3)**	**2,780.7**	**5,896.5**	**48.4**	**5,944.9**
Comprehensive income/(loss)									
Net income/(loss)	–	–	–	–	–	144.5	144.5	(12.0)	132.5
Foreign currency translation	–	–	–	(41.3)	–	–	(41.3)	(0.1)	(41.4)
Tax relating to components of other comprehensive income	–	–	–	(0.7)	–	–	(0.7)	–	(0.7)
Total comprehensive income/(loss)	**–**	**–**	**–**	**(42.0)**	**–**	**144.5**	**102.5**	**(12.1)**	**90.4**
Transactions with owners									
Shares repurchased	–	(8.8)	–	–	–	–	(8.8)	–	(8.8)
Dividend declared and paid	–	–	(204.3)	–	–	–	(204.3)	–	(204.3)
Share-based payments	–	–	3.6	–	–	–	3.6	–	3.6
Shares reallocated relating to share-based payments	–	1.3	–	–	–	–	1.3	–	1.3
Loss on reissuance of treasury shares	–	–	–	–	–	(1.0)	(1.0)	–	(1.0)
Total transactions with owners	**–**	**(7.5)**	**(200.7)**	**–**	**–**	**(1.0)**	**(209.2)**	**–**	**(209.2)**
Balance at 30 September 2018	**654.7**	**(27.2)**	**2,833.0**	**(565.6)**	**(29.3)**	**2,924.2**	**5,789.8**	**36.3**	**5,826.1**

Subsea 7 S.A.
Condensed Consolidated Statement of Changes in Equity
For the nine months ended 30 September 2017

Unaudited (in $ millions)	Issued share capital	Treasury shares	Paid in surplus	Equity reserves	Translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	**654.7**	**(31.5)**	**3,227.5**	**50.2**	**(689.1)**	**(40.2)**	**2,411.9**	**5,583.5**	**(46.9)**	**5,536.6**
Comprehensive income										
Net income	–	–	–	–	–	–	398.1	398.1	5.1	403.2
Foreign currency translation	–	–	–	–	143.4	–	–	143.4	(0.5)	142.9
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	0.5	–	0.5	–	0.5
Reclassification adjustments relating to business combinations	–	–	–	–	4.5	4.5	–	9.0	–	9.0
Tax relating to components of other comprehensive income	–	–	–	–	(1.7)	–	–	(1.7)	–	(1.7)
Total comprehensive income	**–**	**–**	**–**	**–**	**146.2**	**5.0**	**398.1**	**549.3**	**4.6**	**553.9**
Transactions with owners										
Dividend declared and paid	–	–	(191.1)	–	–	–	–	(191.1)	–	(191.1)
Equity component of convertible bonds	–	–	–	(8.9)	–	–	8.9	–	–	–
Share-based payments	–	–	4.6	–	–	–	–	4.6	–	4.6
Addition of non-controlling interest	–	–	–	–	–	–	–	–	0.2	0.2
Gain on reissuance of treasury shares	–	–	–	–	–	–	0.2	0.2	–	0.2
Reclassification adjustment relating to business combination	–	–	–	–	–	5.5	(5.5)	–	–	–
Reclassification of non-controlling interest	–	–	–	–	36.2	–	(131.9)	(95.7)	95.7	–
Total transactions with owners	**–**	**–**	**(186.5)**	**(8.9)**	**36.2**	**5.5**	**(128.3)**	**(282.0)**	**95.9**	**(186.1)**
Balance at 30 September 2017	**654.7**	**(31.5)**	**3,041.0**	**41.3**	**(506.7)**	**(29.7)**	**2,681.7**	**5,850.8**	**53.6**	**5,904.4**

Subsea 7 S.A.
Condensed Consolidated Cash Flow Statement

(in $ millions)	Nine Months Ended 30 Sep 2018 Unaudited	Nine Months Ended 30 Sep 2017 Unaudited
Net cash generated from operating activities	**237.6**	190.6
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	**4.5**	0.6
Purchases of property, plant and equipment	**(197.6)**	(115.5)
Purchases of intangible assets	**(2.2)**	(3.6)
Loans to third parties	**–**	(25.0)
Loan repayments from third parties	**–**	25.0
Completion payments to acquire subsidiary	**–**	(1.6)
Loans to associates and joint ventures	**(2.3)**	(0.4)
Loans to non-controlling interests	**–**	(0.2)
Loan repayments from joint ventures	**0.2**	1.1
Advances from joint ventures	**–**	10.0
Interest received	**12.5**	16.9
Dividends received from associates and joint ventures	**–**	30.5
Acquisition of interest in joint venture	**(18.9)**	–
Acquisition of businesses (net of cash and borrowings acquired)	**(161.3)**	(149.0)
Net cash used in investing activities	**(365.1)**	(211.2)
Cash flows from financing activities		
Interest paid	**(9.9)**	(8.1)
Proceeds from borrowings	**–**	301.2
Repayment of borrowings	**(18.5)**	(145.1)
Repayment of derivative financial instrument	**–**	(8.0)
Cost of share repurchases	**(8.7)**	–
Proceeds from reissuance of ordinary shares	**0.5**	0.2
Dividends paid to non-controlling interests	**–**	(0.5)
Dividends paid to equity shareholders of the parent company	**(204.3)**	(191.2)
Repurchase of convertible bonds	**–**	(77.3)
Net cash used in financing activities	**(240.9)**	(128.8)
Net decrease in cash and cash equivalents	**(368.4)**	(149.4)
Cash and cash equivalents at beginning of year	**1,109.1**	1,676.4
Decrease/(increase) in restricted cash	**1.0**	(6.6)
Effect of foreign exchange rate movements on cash and cash equivalents	**(9.7)**	3.8
Cash and cash equivalents at end of period	**732.0**	1,524.2

1. General information

Subsea 7 S.A. is a company registered in Luxembourg whose common shares trade on the Oslo Børs and over-the-counter as American Depositary Receipts (ADRs) in the US. The address of the registered office is 412F, route d'Esch, L-2086 Luxembourg. The Condensed Consolidated Financial Statements were authorised for issue by the Board of Directors on 7 November 2018.

2. Basis of preparation

The Condensed Consolidated Financial Statements for the period from 1 January 2018 to 30 September 2018 for Subsea 7 S.A. have been prepared on a going concern basis and in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU).

The Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended 31 December 2017 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The Condensed Consolidated Financial Statements are unaudited.

3. Accounting policies

Basis of accounting

The accounting policies adopted in the preparation of the Condensed Consolidated Financial Statements are consistent with the Consolidated Financial Statements for the year ended 31 December 2017 except as detailed below.

The following International Financial Reporting Standards (IFRS) have been adopted by the Group for the financial year beginning 1 January 2018.

IFRS 9 'Financial Instruments'

IFRS 9 impacts the accounting for financial instruments in three areas; classification and measurement, hedge accounting and impairment.

Due to the nature of the financial instruments held by the Group, the change in classification and measurement requirements has not had a significant impact on the Group's Condensed Consolidated Financial Statements. The Group does not currently apply hedge accounting and as a result the new requirements are not applicable.

The implementation of IFRS 9 demands a change from an incurred loss impairment model to an expected credit loss (ECL) impairment model and requires the Group to record allowances against financial assets for expected credit losses, either from a 12-month or lifetime perspective. Credit losses are expected to be insignificant due to the nature of the Group's clients and the services provided. A review of the historical occurrence of credit losses indicates that credit losses are not material to the Condensed Consolidated Financial Statements. The outlook for the oil and gas and renewable energy industries is not expected to result in a significant change in the Group's exposure to credit losses.

IFRS 15 'Revenue from Contracts with Customers'

The Group has adopted IFRS 15 using the modified retrospective approach for contracts not considered complete at the date of initial application. As a result, all lump-sum onerous contract provisions have been reassessed in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', having previously been governed by IAS 11 'Construction Contracts'.

The requirements of IAS 37 prescribe that an onerous contract provision must be calculated on a least net cost basis, which includes unavoidable costs only, and comparing these costs to the cost of cancelling a contract and incurring early termination fees. As a result of the reassessment and restatement of lump-sum onerous contract provisions the Group recognised an increase in retained earnings at 1 January 2018 of $3.9 million. In addition the onerous contract provision of $95.0 million, which at 31 December 2017 was included in the Consolidated Balance Sheet within 'Construction contract – liabilities', has been remeasured and reallocated to 'Provisions'. The impact on the Consolidated Balance Sheet as of 1 January 2018 ((increase)/decrease)) was as follows:

(in $ millions)	Retained earnings	Construction contracts – liabilities	Provisions
Onerous contract provisions	**(3.9)**	**95.0**	**(91.1)**

As required by IAS 34 'Interim Financial Reporting', the Group has disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. This is detailed within Note 6 'Segment information' to the Condensed Consolidated Financial Statements.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies which are described in the Consolidated Financial Statements for the year ended 31 December 2017, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other assumptions that management believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Management makes accounting judgements on the following aspects of the business as described in full in the audited Consolidated Financial Statements for the year ended 31 December 2017:

- Revenue recognition on long-term construction contracts
- Revenue recognition on variation orders and claims
- Allocation of goodwill to cash-generating units (CGUs)
- Goodwill carrying amount
- Property, plant and equipment
- Recognition of provisions and disclosure of contingent liabilities
- Taxation
- Measurement of other intangibles acquired on business combinations
- Measurement of contingent consideration on business combinations

5. Seasonality

A significant portion of the Group's revenue is generated from work performed offshore. During certain periods of the year, the Group may be affected by adverse weather conditions such as hurricanes, tropical storms and rough seas, which may cause delays. Periods of adverse weather conditions usually result in low levels of activity.

6. Segment information

For management and reporting purposes, the Group is organised into four Business Units: SURF and Conventional, i-Tech Services, Renewables and Heavy Lifting and Corporate. These operating segments are defined as follows:

SURF and Conventional

The SURF and Conventional Business Unit includes:

- Subsea Umbilicals, Risers and Flowlines (SURF) activities related to the engineering, procurement, installation and commissioning of highly complex systems offshore, including the long-term PLSV contracts in Brazil; and
- Conventional services including the fabrication, installation, extension and refurbishment of fixed and floating platforms and associated pipelines in shallow water environments.

This segment includes costs, including depreciation and impairment charges, related to vessels, equipment and offshore personnel deployed on SURF and Conventional activities.

i-Tech Services

The i-Tech Services Business Unit includes activities associated with the provision of Inspection, Repair and Maintenance (IRM) services, integrity management of subsea infrastructure and remote intervention support. This segment includes costs, including depreciation and impairment charges, related to vessels, equipment and offshore personnel deployed on i-Tech Services activities. The Eidesvik Seven joint venture is reported within this segment.

Renewables and Heavy Lifting

The Renewables and Heavy Lifting Business Unit includes activities related to three specialist segments of the offshore energy market: the installation of offshore wind farm foundations and inter-array cables, heavy lifting operations for oil and gas structures, and the decommissioning of redundant offshore structures. This segment includes costs, including depreciation and impairment charges, related to vessels, equipment and offshore personnel deployed on Renewables and Heavy Lifting activities. The results of Seaway Offshore Cables GmbH (formerly Siem Offshore Contractors GmbH) and its UK subsidiary are included within this business unit from the date of acquisition.

Corporate

The Corporate Business Unit includes group-wide activities, and associated costs, including captive insurance activities, operational support, corporate services and costs associated with discrete events such as restructuring. A significant portion of the Corporate Business Unit's costs are allocated to the other operating segments based on a percentage of their external revenue.

Summarised financial information relating to each operating segment is as follows:

For the three months ended 30 September 2018

(in $ millions) Unaudited	SURF and Conventional	i-Tech Services	Renewables and Heavy Lifting	Corporate	Total
Revenue[(a)]					
Lump-sum projects	**715.5**	**1.6**	**150.5**	**–**	**867.6**
Day-rate projects	**149.9**	**63.9**	**1.0**	**–**	**214.8**
	865.4	**65.5**	**151.5**	**–**	**1,082.4**
Net operating income/(loss)	**92.5**	**4.2**	**16.5**	**(2.5)**	**110.7**
Finance income					**3.8**
Other gains and losses					**(1.7)**
Finance costs					**(2.8)**
Income before taxes					**110.0**

(a) Revenue from contracts with customers recognised over time as defined by IFRS 15.

For the three months ended 30 September 2017

(in $ millions) Unaudited	SURF and Conventional	i-Tech Services	Renewables and Heavy Lifting	Corporate	Total
Revenue	754.7	76.2	232.4	–	1,063.3
Net operating income/(loss)	102.7	5.8	44.5	(3.8)	149.2
Finance income					6.0
Other gains and losses					(26.3)
Finance costs					(6.2)
Income before taxes					122.7

For the nine months ended 30 September 2018

(in $ millions) Unaudited	SURF and Conventional	i-Tech Services	Renewables and Heavy Lifting	Corporate	Total
Revenue[(a)]					
Lump-sum projects	**1,792.9**	**2.4**	**581.1**	**–**	**2,376.4**
Day-rate projects	**499.0**	**175.2**	**0.5**	**–**	**674.7**
	2,291.9	**177.6**	**581.6**	**–**	**3,051.1**
Net operating income/(loss)	**167.0**	**5.1**	**16.9**	**(12.1)**	**176.9**
Finance income					**12.5**
Other gains and losses					**2.8**
Finance costs					**(10.7)**
Income before taxes					**181.5**

(a) Revenue from contracts with customers recognised over time as defined by IFRS 15.

For the nine months ended 30 September 2017

(in $ millions) Unaudited	SURF and Conventional	i-Tech Services	Renewables and Heavy Lifting	Corporate	Total
Revenue	1,970.7	235.0	777.3	–	2,983.0
Net operating income	416.4	27.7	93.3	15.1	552.5
Finance income					16.9
Remeasurement gain on business combination					42.2
Other gains and losses					(61.2)
Finance costs					(15.2)
Income before taxes					535.2

7. Earnings per share

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the net income attributable to shareholders of the parent company by the weighted average number of common shares in issue during the period, excluding common shares purchased by the Group and held as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potentially dilutive common shares.

The income and share data used in the calculation of basic and diluted earnings per share were as follows:

	Three Months Ended		Nine Months Ended	
For the period (in $ millions)	**30 Sep 2018 Unaudited**	30 Sep 2017 Unaudited	**30 Sep 2018 Unaudited**	30 Sep 2017 Unaudited
Net income attributable to shareholders of the parent company	**76.5**	113.3	**144.5**	398.1
Interest on convertible bonds (net of amounts capitalised)	**–**	2.1	**–**	4.7
Earnings used in the calculation of diluted earnings per share	**76.5**	115.4	**144.5**	402.8

	Three Months Ended		Nine Months Ended	
For the period (number of shares)	**30 Sep 2018 Unaudited**	30 Sep 2017 Unaudited	**30 Sep 2018 Unaudited**	30 Sep 2017 Unaudited
Weighted average number of common shares used in the calculation of basic earnings per share	**325,884,632**	325,864,247	**326,099,444**	325,851,993
Convertible bonds	**–**	13,176,297	**–**	14,141,754
Share options and performance shares	**1,822,759**	1,834,602	**1,852,600**	1,848,776
Weighted average number of common shares used in the calculation of diluted earnings per share	**327,707,391**	340,875,146	**327,952,044**	341,842,523

	Three Months Ended		Nine Months Ended	
For the period (in $ per share)	**30 Sep 2018 Unaudited**	30 Sep 2017 Unaudited	**30 Sep 2018 Unaudited**	30 Sep 2017 Unaudited
Basic earnings per share	**0.23**	0.35	**0.44**	1.22
Diluted earnings per share	**0.23**	0.34	**0.44**	1.18

The following shares that could potentially dilute earnings per share were excluded from the calculation of diluted earnings per share due to being anti-dilutive:

	Three Months Ended		Nine Months Ended	
For the period (number of shares)	**30 Sep 2018 Unaudited**	30 Sep 2017 Unaudited	**30 Sep 2018 Unaudited**	30 Sep 2017 Unaudited
Share options and performance shares	**495,267**	804,232	**480,692**	798,868

8. Adjusted EBITDA and Adjusted EBITDA margin

Adjusted earnings before interest, taxation, depreciation and amortisation ('Adjusted EBITDA') is a non-IFRS measure that represents net income before additional specific items that are considered to impact the comparison of the Group's performance either period-on-period or with other businesses. The Group defines Adjusted EBITDA as net income adjusted to exclude depreciation costs, amortisation of prepaid mobilisation expenses and amortisation of intangible assets, impairment charges or impairment reversals, finance income, remeasurement gains and losses on business combinations, other gains and losses (including foreign exchange gains and losses, gains on disposal of subsidiaries, gains and losses resulting from remeasurement of contingent consideration, gains on distributions and bargain purchase gains on business combinations), finance costs and taxation. Adjusted EBITDA margin is defined as Adjusted EBITDA divided by revenue, expressed as a percentage.

The items excluded from Adjusted EBITDA represent items which are individually or collectively material but which are not considered representative of the performance of the business during the periods presented. Other gains and losses principally relate to disposals of investments, property, plant and equipment and net foreign exchange gains or losses. Impairments of assets represent the excess of the assets' carrying amount over the amount that is expected to be recovered from their use in the future or their sale.

Adjusted EBITDA and Adjusted EBITDA margin have not been prepared in accordance with IFRS as adopted by the EU. These measures exclude items that can have a significant effect on the Group's income or loss and therefore should not be considered as an alternative to, or more meaningful than, net income (as determined in accordance with IFRS) as a measure of the Group's operating results or cash flows from operations (as determined in accordance with IFRS) as a measure of the Group's liquidity.

Management believes that Adjusted EBITDA and Adjusted EBITDA margin are important indicators of the operational strength and the performance of the business. These non-IFRS measures provide management with a meaningful comparative for its Business Units, as they eliminate the effects of financing, depreciation and taxation. Management believes that the presentation of Adjusted EBITDA is also useful as it is similar to measures used by companies within Subsea 7's peer group and therefore believes it to be a helpful calculation for those evaluating companies within Subsea 7's industry. Adjusted EBITDA margin may also be a useful ratio to compare performance to its competitors and is widely used by shareholders and analysts following the Group's performance. Notwithstanding the foregoing, Adjusted EBITDA and Adjusted EBITDA margin as presented by the Group may not be comparable to similarly titled measures reported by other companies.

Reconciliation of net operating income to Adjusted EBITDA and Adjusted EBITDA margin:

For the period (in $ millions)	Three Months Ended		Nine Months Ended	
	30 Sep 2018 Unaudited	30 Sep 2017 Unaudited	**30 Sep 2018 Unaudited**	30 Sep 2017 Unaudited
Net operating income	**110.7**	149.2	**176.9**	552.5
Depreciation, amortisation and mobilisation	**106.5**	101.2	**328.3**	305.9
Impairment of property, plant and equipment	**–**	–	**0.5**	–
Adjusted EBITDA	**217.2**	250.4	**505.7**	858.4
Revenue	**1,082.4**	1,063.3	**3,051.1**	2,983.0
Adjusted EBITDA margin	**20.0%**	23.5%	**16.6%**	28.8%

Reconciliation of net income to Adjusted EBITDA and Adjusted EBITDA margin:

For the period (in $ millions)	Three Months Ended		Nine Months Ended	
	30 Sep 2018 Unaudited	30 Sep 2017 Unaudited	**30 Sep 2018 Unaudited**	30 Sep 2017 Unaudited
Net income	**76.3**	111.1	**132.5**	403.2
Depreciation, amortisation and mobilisation	**106.5**	101.2	**328.3**	305.9
Impairment of property, plant and equipment	**–**	–	**0.5**	–
Remeasurement gain on business combination	**–**	–	**–**	(42.2)
Finance income	**(3.8)**	(6.0)	**(12.5)**	(16.9)
Other gains and losses	**1.7**	26.3	**(2.8)**	61.2
Finance costs	**2.8**	6.2	**10.7**	15.2
Taxation	**33.7**	11.6	**49.0**	132.0
Adjusted EBITDA	**217.2**	250.4	**505.7**	858.4
Revenue	**1,082.4**	1,063.3	**3,051.1**	2,983.0
Adjusted EBITDA margin	**20.0%**	23.5%	**16.6%**	28.8%

9. Goodwill

The movement in goodwill during the period was as follows:

(in $ millions)	Nine Months Ended	
	30 Sep 2018 Unaudited	30 Sep 2017 Unaudited
At period beginning	**700.8**	627.7
Adjustments to identifiable net assets at fair value subsequent to initial recognition	**2.4**	–
Acquired in business combination	**71.2**	42.0
Exchange differences	**(7.4)**	30.8
At period end	**767.0**	700.5

10. Business combinations

Acquisition of certain businesses and assets of Siem Offshore Inc.

On 10 April 2018, indirect subsidiaries of Subsea 7 S.A. acquired the entire share capital of Seaway Offshore Cables GmbH (formerly Siem Offshore Contractors GmbH), its UK subsidiary, the inter-array cable lay vessel, *Seaway Aimery* (formerly *Siem Aimery*), and the support vessel, *Seaway Moxie* (formerly *Siem Moxie*).

During the third quarter there were no significant acquisition accounting adjustments relating to this business combination. For a further explanation and the related financial disclosures refer to Note 10 ‘Business combinations’ within the Group’s Condensed Consolidated Financial Statements for the quarter ended 30 June 2018 at www.subsea7.com.

11. Treasury shares

During the third quarter, no shares were used to satisfy share-based awards. At 30 September 2018, the Group directly held 1,482,479 common shares (Q2 2018: 1,482,479) as treasury shares, representing 0.45% (Q2 2018: 0.45%) of the total number of issued shares.

12. Share repurchase programme

During the third quarter, no shares were repurchased under the Group's $200 million share repurchase programme initiated in July 2014 and extended to 31 July 2019. At 30 September 2018, the Group had repurchased a cumulative 5,947,355 shares for a total consideration of $65.8 million under the July 2014 programme.

13. Commitments and contingent liabilities

Commitments

At 30 September 2018, the Group had entered into significant contractual commitments totalling $228.8 million, mainly in relation to the construction of *Seven Vega*, a new reel-lay vessel and associated pipe-lay equipment.

Contingent liabilities not recognised in the Consolidated Balance Sheet

The Group is subject to tax audits and receives tax assessments in a number of jurisdictions where it has, or has had, operations. The estimation of the ultimate outcome of these audits and disputed tax assessments is complex and subjective. The likely outcome of the audits and associated cash outflow, if any, may be impacted by technical uncertainty and the availability of supporting documentation.

Among these audits, the Group's Nigerian businesses were subject to audit by Rivers State, Nigeria, in respect of payroll taxes for offshore personnel for the years 2010 to 2014. At 30 September 2018, there was a contingent liability relating to the assessments received from Rivers State in respect of such personnel, which total NGN 34,190 million, equivalent to $94.0 million (31 December 2017: NGN 34,190 million, equivalent to $95.0 million). The Group has challenged the assessments and is currently involved in court proceedings in Nigeria to protect its assets from sequestration by Rivers State authorities in respect of one of the assessments totalling NGN 3,352 million, equivalent to $9.2 million.

The Group does not believe the likelihood of payments is probable and no provision has been recognised in the Consolidated Balance Sheet in respect of the assessments resulting from the Rivers State audits.

Between 2009 and 2017, the Group's Brazilian businesses were audited and formally assessed for ICMS and federal taxes (including import duty) by the Brazilian state and federal tax authorities. The amount assessed, including penalties and interest, at 30 September 2018 amounted to BRL 735.3 million, equivalent to $180.4 million (31 December 2017: BRL 703.3 million, equivalent to $213.7 million). The Group has challenged these assessments. No provision has been made in relation to these cases. A contingent liability has been disclosed for the total amounts assessed as the disclosure criteria have been met, however, the Group does not believe that the likelihood of payment is probable.

Contingent liabilities recognised in the Consolidated Balance Sheet

As part of accounting for the business combination with Subsea 7 Inc., IFRS 3 'Business Combinations' required the Group to recognise as a provision, as of the acquisition date, the fair value of contingent liabilities assumed if there was a present obligation that arose from past events, even where payment was not probable. The value of the provision recognised within the Consolidated Balance Sheet at 30 September 2018 was $3.9 million (31 December 2017: $4.9 million). While complying with the requirements of IFRS 3, the Group continues to believe that payment relating to the remaining recognised contingent liabilities is not probable.

As part of the accounting for the business combination of Pioneer Lining Technology Limited, IFRS 3 'Business Combinations' required the Group to recognise a provision in respect of contingent consideration payable to a third party following the acquisition of intangible assets in 2009. The value of the provision recognised within the Consolidated Balance Sheet at 30 September 2018 was $2.9 million (31 December 2017: $2.9 million).

14. Cash flow from operating activities

For the period ended (in $ millions)	Nine Months Ended 30 Sep 2018 Unaudited	Nine Months Ended 30 Sep 2017 Unaudited
Cash flow from operating activities:		
Income before taxes	**181.5**	535.2
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	**297.1**	285.8
Impairment of property, plant and equipment	**0.5**	–
Amortisation of intangible assets	**24.4**	14.2
Amortisation of mobilisation costs	**6.8**	5.9
Adjustments for investing and financing items:		
Remeasurement gain on business combination	**–**	(42.2)
Share of net income of associates and joint ventures	**3.9**	31.4
Finance income	**(12.5)**	(16.9)
Loss/(profit) on disposal of property, plant and equipment	**0.1**	(0.1)
Loss on repurchase of convertible bonds	**–**	2.5
Finance costs	**10.7**	15.2
Adjustments for equity items:		
Share-based payments	**3.5**	4.6
	516.0	835.6
Changes in operating assets and liabilities:		
Increase in inventories	**(0.7)**	(0.2)
Increase in operating receivables	**(389.6)**	(94.3)
Increase/(decrease) in operating liabilities	**183.4**	(464.2)
	(206.9)	(558.7)
Income taxes paid	**(71.5)**	(86.3)
Net cash generated from operating activities	**237.6**	190.6

15. Fair value and financial instruments

The carrying value of the Group's financial assets and financial liabilities recorded at amortised cost in the Condensed Consolidated Financial Statements approximate their fair values.

Borrowings – senior secured facility

The fair value of the senior secured facility is determined by matching the maturity profile of the amounts utilised under the facility to market interest rates available to the Group for borrowings with similar security, maturity and repayment profiles. At 30 September 2018 interest charged under the facility is representative of market rates currently available to the Group and therefore the carrying amount approximates fair value.

Fair value measurements

Fair value hierarchy

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market date (unobservable inputs).

Recurring and non-recurring fair value measurements

Recurring fair value measurements are those that IFRSs require at the end of each reporting period and non-recurring fair value measurements are those that IFRSs require or permit in particular circumstances.

Assets and liabilities which are measured at fair value in the Condensed Consolidated Balance Sheet and their level in the fair value hierarchy were as follows:

As at (in $ millions)	**2018 30 Sep Level 2**	**2018 30 Sep Level 3**	2017 31 Dec Level 2	2017 31 Dec Level 3
Recurring fair value measurements				
Financial assets mandatorily measured at fair value through profit or loss:				
Derivative instruments	**14.9**	**–**	42.7	–
Financial liabilities mandatorily measured at fair value through profit or loss:				
Derivative instruments	**(11.1)**	**–**	(24.8)	–
Contingent consideration	**–**	**(50.1)**	–	(20.0)

During the period ended 30 September 2018 there were no transfers between levels of the fair value hierarchy. The Group accounts for transfers between levels of the fair value hierarchy from the date of the event or change in circumstance that caused the transfer.

Fair value techniques and inputs

Financial assets and liabilities mandatorily measured at fair value through profit or loss

The Group's financial assets and liabilities at fair value through profit or loss comprised:

- Forward foreign exchange contracts and embedded derivatives
  The fair value of outstanding forward foreign exchange contracts and embedded derivatives was calculated using quoted foreign exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.
- Contingent consideration
  The fair value of contingent consideration is determined based on current expectations of the achievement of specific targets and milestones and calculated using the discounted cash flow method and unobservable inputs.

Financial assets measured at fair value through other comprehensive income and designated as such at initial recognition

The Group's financial assets and liabilities measured at fair value through other comprehensive income and designated as such at initial recognition comprised:

Financial investments

At 30 September 2018, the Group had investments in unlisted companies. The Group has concluded that due to their nature, in the case of each investment, there are a wide range of possible fair value measurements with insufficient recent information available to accurately measure fair value. As a result, at 30 September 2018, the investments continue to be carried at cost of $7.3 million as, in each case, cost is considered to represent the best estimate of fair value of each investment within a range of possible outcomes.

16. Impact of implementation of IFRS 16 ‘Leases’

With effect from 1 January 2019 the Group will be implementing IFRS 16 ‘Leases’ on a modified retrospective basis. Comparative financial information will not be restated. The requirements of IFRS 16 will be applied to all leases except for those with low value assets or with a lease term of 12 months or less. With the exception of changes in classification, IFRS 16 will have no impact on the Group’s reported cash flows. Net income will be unaffected, except for adverse phasing of finance costs recognised in 2019, which will reverse in subsequent years.

A preliminary estimate of the impact of IFRS 16 on the Group’s financial results has been performed based on current and forecast lease commitments. It is expected that IFRS 16 will have a significant impact on the Group’s reported Adjusted EBITDA and amortisation charge. The estimated impact of implementing IFRS 16 on the Group’s 2019 financial results will be to increase net operating income by between $10 million to $15 million, increase Adjusted EBITDA by between $100 million to $110 million and increase finance costs by between $20 million to $25 million. Net income in 2019 is expected to be adversely impacted by approximately $10 million due to the Group’s application of IFRS 16 on a modified retrospective basis, which will result in earlier recognition of finance costs embedded within existing leases. This will reverse in subsequent years.

On 1 January 2019, the Group expects to recognise right-of-use assets of between $350 million to $450 million, within non-current assets. These assets will be amortised on a straight-line basis over the remaining term of each individual lease. There will be a lease liability of between $350 million to $450 million recognised at 1 January 2019, the majority of which will be recognised as a non-current liability.

Implementation of IFRS 16 will depend on the classification of leases as either short-term or long-term, which will be determined by the terms of each individual lease, and is dependent on several factors and variables which may change in future periods. The actual impact of IFRS 16 on the Group’s 2019 financial statements may differ from the estimates provided in this note.